

BOARD OF SUPERVISORS

FINANCE/GOVERNMENT SERVICES COMMITTEE

INFORMATION ITEM

#1

SUBJECT: COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2006 AND OPINION LETTER FROM COUNTY'S INDEPENDENT AUDITOR

ELECTION DISTRICT: County-wide

BACKGROUND: The audit for the fiscal year ended June 30, 2006 was the fourth financial and compliance audit conducted for the County by KPMG, LLP, under a five-year engagement through fiscal year 2007. This firm has been outstanding to work with during the audit process and the County wishes to express its appreciation for the cooperative and professional attitude of the audit staff during the course of their work. Mr. Jack Reagan was the engagement partner for FY2006.

The County's published Comprehensive Annual Financial Report for the fiscal year ended June 30, 2006, has previously been forwarded to Board members for review. That financial report contains transmittal letters from the County Administrator, the Director of Management and Financial Services, the Comptroller and the Report of Independent Public Accountants. Also included are the Report of Independent Public Accountants on Compliance and Internal Controls Over Financial Reporting and the Report of Independent Public Accountants on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance (including the Schedule of Expenditures of Federal Awards) in accordance with OMB Circular A-133.

This item is presented to the Finance/Government Services Committee as information and requires no action.

ATTACHMENTS: I. Opinion Letter to the Board of Supervisors
II. KPMG Presentation Material

STAFF CONTACT: Paul N. Arnett, Comptroller
Mark D. Adams, Director, Management and Financial Services



KPMG LLP
2001 M Street, NW
Washington, DC 20036

Board of Supervisors
County of Loudoun, Virginia:

November 27, 2007

Ladies and Gentlemen:

We have audited the financial statements of the County of Loudoun, Virginia (the County) as of and for the year ended June 30, 2006, and have issued our report thereon dated November 27, 2007. In planning and performing our audit of the financial statements of the County in accordance with auditing standards generally accepted in the United States of America, we considered the County's internal control as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

The maintenance of adequate controls designed to fulfill control objectives is the responsibility of management. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, controls found to be functioning at a point in time may later be found deficient because of the performance of those responsible for applying them, and there can be no assurance that controls currently in existence will prove to be adequate in the future as changes take place in the organization.

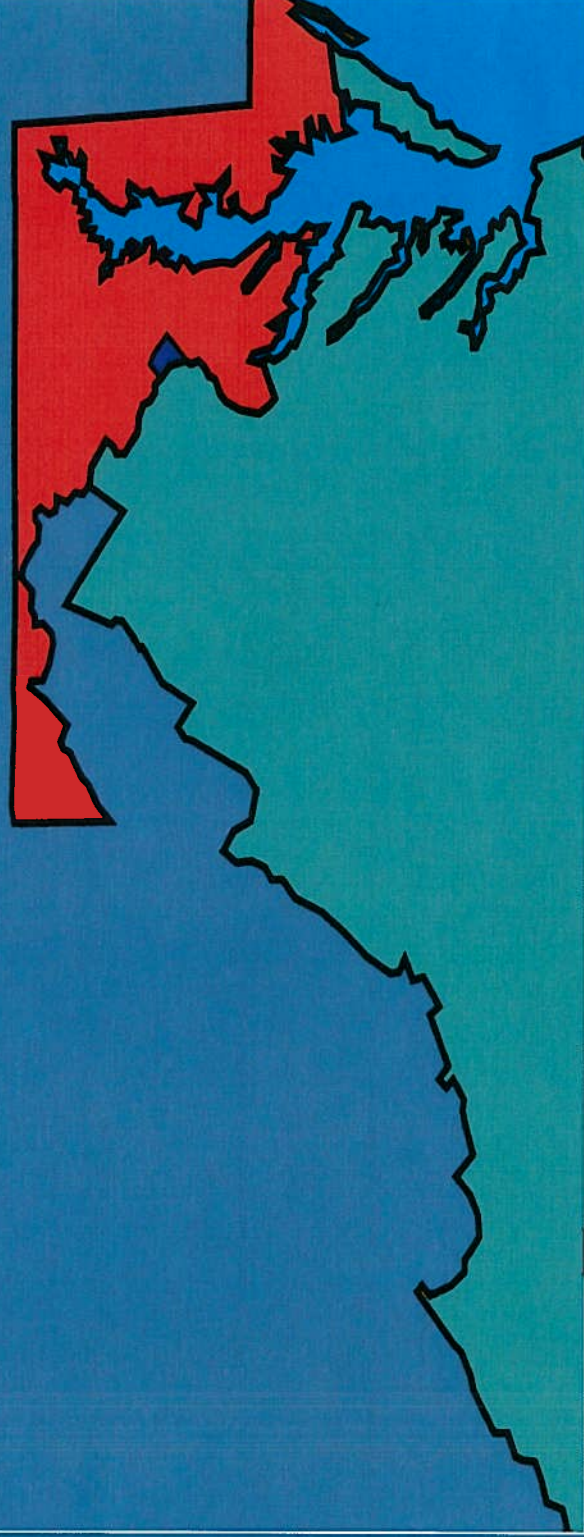
Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under auditing standards generally accepted in the United States of America. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control and its operation that we consider to be material weaknesses as defined above.

This communication is intended solely for the information and use of management, the Board of Supervisors, others within the organization, and the Auditor of Public Accounts and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP

Audit of Financial Statements
for the Year Ended June 30, 2006
Board of Supervisors Presentation



County of Loudoun, Virginia





Agenda

- Introduction
- Scope of Services
- Results
- Auditors' Required Communications





Introduction

John (Jack) Reagan III



Engagement Partner





Scope of Services

- **Audit of the County's Financial Statements**
- **Audit of the County's Federal Award Programs**
- **Agreed-upon Procedures related to:**
 - APA Comparative Report Transmittal Letter
 - E-911 Services Funds
 - Jail Canteen Funds
 - Landfill Financial Assurance Letter
 - Route 28
 - Other APA procedures





Results – Financial Statement Audit

- Unqualified or “clean” opinion on the County’s financial statements
- No reportable conditions noted
- No noncompliance with laws and regulations noted at the financial statement level





Results – Audit of Federal Awards

- Unqualified or “clean” opinion on schedule of expenditures of federal awards
- Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133





Auditors' Required Communications

- Auditors' responsibility under Generally Accepted Auditing Standards (GAAS)
- Significant (unusual) accounting policies
- Management's judgments and accounting estimates
- Significant audit adjustments
- Uncorrected audit differences
- Other information in documents containing audited financial statements
- Consultation with other accountants
- Disagreements with management
- Major issues discussed with management prior to retention
- Difficulties encountered in performing the audit
- Instance of non-compliance with laws and regulations





Summary

**Thank you for the courtesy and assistance provided
to the KPMG team throughout the audit!**





COUNTY OF LOUDOUN, VIRGINIA
Audit of Federal Awards Programs
Year ended June 30, 2006
(With Independent Auditors' Reports Thereon)

COUNTY OF LOUDOUN, VIRGINIA

Audit of Federal Awards Programs

Year ended June 30, 2006

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KPMG LLP
2001 M Street, NW
Washington, DC 20036

**Independent Auditors' Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

The Board of Supervisors
County of Loudoun, Virginia:

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County of Loudoun, Virginia (the County), as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, and have issued our report thereon dated November 27, 2006. Our report indicated that the County implemented certain new accounting standards effective July 1, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns* (the Specifications) issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Also, the Auditor of Public Accounts of the Commonwealth of Virginia requires us to test the County's compliance with certain matters specified in the Code of Virginia, including budget and appropriations laws; cash and investments; conflicts of interest; debt provisions; procurement; local retirement systems; unclaimed property; enhanced 911 service taxes; intragovernmental revenues and agreements; inmate canteen and other auxiliary funds; state agency requirements for education; State Route 28 Highway Transportation Improvement District; Comprehensive Services Act funds; and social services. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or the Specifications.



This report is intended solely for the information and use of the Board of Supervisors, County management, the Auditor of Public Accounts of the Commonwealth of Virginia, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 27, 2006



KPMG LLP
2001 M Street, NW
Washington, DC 20036

**Independent Auditors' Report on Compliance with Requirements Applicable
to Each Major Program, Internal Control over Compliance, and
the Schedule of Expenditures of Federal Awards in Accordance
with OMB Circular A-133**

The Board of Supervisors
County of Loudoun, Virginia:

Compliance

We have audited the compliance of the County of Loudoun, Virginia (the County), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The County's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

In our opinion, the County complied, in all material respects, with the requirements referred to in the first paragraph of this report that are applicable to each of its major federal programs for the year ended June 30, 2006. However, the results of our auditing procedures disclosed an instance of noncompliance with the requirements referred to in the first paragraph of this report, which is required to be reported in accordance with OMB Circular A-133 and is described in the accompanying schedule of findings and questioned cost as item 2006-02.

Internal Control over Compliance

The management of the County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.



We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the County's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grant agreements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2006-01, 2006-02, 2006-3, 2006-4, 2006-5, and 2006-6.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions identified above is a material weakness.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County of Loudoun, Virginia (the County), as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, and have issued our report thereon dated November 27, 2006. Our report indicated that the County implemented certain new accounting standards effective July 1, 2005. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Supervisors, County management, the Auditor of Public Accounts of the Commonwealth of Virginia, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 27, 2006

COUNTY OF LOUDOUN, VIRGINIA
Schedule of Expenditures of Federal Awards
Year ended June 30, 2006

Federal granting agency/pass-through agency/program	Federal catalog number	Grant year	Total 2006 federal expenditures
United States Department of Agriculture:			
Pass-through Payments:			
State Department of Agriculture:			
Food Distribution – Non-cash Commodities			
National School Lunch Program	10.555	\$	687,756
State Department of Juvenile Justice:			
National School Lunch Program	10.555		25,532
State Department of Social Services:			
State Administrative Matching Grants for Food Stamp Program	10.561		747,876
State Department of Education:			
School Breakfast Program	10.553		224,466
National School Lunch Program	10.555		2,326,962
Special Milk Program for Children	10.556		81,331
Total United States Department of Agriculture			4,093,923
United States Department of Defense			
Pass-through Payments:			
United States Department of Housing and Urban Development:			
Disaster Voucher Program	12.000		18,449
Total United States Department of Defense			18,449
United States Department of Housing and Urban Development			
Direct Payments:			
Community Development Block Grant	14.228		777,069
Supportive Housing Program – Transitional Housing Assistance	14.235		197,120
Section 8 Housing Choice Vouchers	14.871		7,114,226
Pass through Payments:			
Virginia Housing Development Authority:			
Housing Counseling Assistance	14.169		4,099
State Department of Housing and Community Development:			
Emergency Shelter Grants Program	14.231		12,374
Northern Virginia Planning District Commission:			
Housing Opportunities for Persons With AIDS	14.241		69,289
Total United States Department of Housing and Urban Development			8,174,177
United States Department of Justice			
Direct Payments:			
Gang-Free Schools & Communities _Community-Based Gang Intervention	16.544		1,883,604
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grant	16.580		24,558
Grants to Encourage Arrest Policies and Endorsement of Protection Orders	16.590		243,358
Local Law Enforcement Block Grant	16.592		10,303
State Criminal Alien Assistance Program	16.606		6,922
Public Safety Partnership and Community Policing Grants	16.710		256,272
Pass through Payments:			
State Department of Criminal Justice Services:			
Juvenile Accountability Incentive Block Grant	16.523		13,060
Juvenile Justice and Delinquency Prevention Allocation to States	16.540		157,262
Byrne Formula Grant Program	16.579		83,893
Violence Against Women Formula Grants	16.588		32,697
Total United States Department of Justice			2,711,929

COUNTY OF LOUDOUN, VIRGINIA
Schedule of Expenditures of Federal Awards
Year ended June 30, 2006

<u>Federal granting agency/pass-through agency/program</u>	<u>Federal catalog number</u>	<u>Grant year</u>	<u>Total 2006 federal expenditures</u>
United States Department of Labor			
Pass-through Payments:			
State Department for the Aging:			
Senior Community Service Employment Program	17.235		\$ 13,788
Total United States Department of Labor			13,788
United States Department of Transportation			
Federal Highway Administration:			
Pass-through Payments:			
State Department of Transportation:			
Highway Planning and Construction	20.205		716,745
State Department of Conservation and Recreation:			
Recreation Trails Program	20.219		506
State Department of Motor Vehicles:			
State and Community Highway Safety	20.600		13,460
Alcohol Open Container Requirements	20.607		19,629
Total United States Department of Transportation			750,340
United States Environmental Protection Agency			
Direct Payments:			
Wetland Program Development Grant	66.461		14,977
Congressionally Mandated Projects	66.202		193,086
Pass-through Payments:			
National Fish and Wildlife Foundation:			
Surveys, Studies, Investigations, and Special Purpose Grants	66.606		35,000
Total United States Environmental Protection Agency			243,063
United States Department of Education			
Direct Payments:			
Impact Aid	84.041		134,264
Fund for Improvement of Education	84.215		217,896
Pass through Payments:			
State Department of Mental Health and Mental Retardation:			
Special Education Grants for Infants and Families with Disabilities	84.181		108,176
City of Fredericksburg, Virginia			
Education Technology State Grants	84.318		10,882
State Department of Education:			
Adult Education – State Grant Program	84.002		116,479
Title I – Grants to Local Educational Agencies	84.010		946,616
Special Education – Grants to State	84.027		5,796,552
Vocational Education Basic Grants to States	84.048		149,509
Special Education – Preschool	84.173		182,760
Safe and Drug-Free Schools and Communities State Grants	84.186		82,113
State Grants for Innovative Program	84.298		125,520
Education Technology State Grants	84.318		31,092
Advanced Placement Program	84.330		10,556
English Language Acquisition Grant	84.365		369,739
Title II Improving Teacher Quality State Grants	84.367		766,052
Grant for State Assessments and Related Activities	84.369		5,245
Hurricane Education Recovery	84.938		160,875
Total United States Department of Education			9,214,326

COUNTY OF LOUDOUN, VIRGINIA
Schedule of Expenditures of Federal Awards
Year ended June 30, 2006

Federal granting agency/pass-through agency/program	Federal catalog number	Grant year	Total 2006 federal expenditures
United States Department of Health and Human Services			
Direct Payments:			
Drug-Free Communities Support Program Grant	93.276		\$ 207,564
Head Start	93.600		782,986
Pass through Payments:			
State Department of Mental Health and Mental Retardation:			
Public Health and Social Services Emergency Fund	93.003		3,667
Projects for Assistance in Transition from Homeless (PATH)	93.150		38,275
Block Grants for Community Mental Health Services	93.958		14,429
Block Grant for Prevention and Treatment of Substance Abuse	93.959		402,417
State Department for the Aging:			
Special Programs for the Aging – Title VII Chapter 3	93.041		667
Special Programs for the Aging – Title III, Part D	93.043		5,672
Special Programs for the Aging – Title III, Parts B	93.044		54,626
Special Programs for the Aging – Title III, Part C-Nutrition Services	93.045		55,129
National Family Caregiver Support	93.052		18,528
Nutrition Services Incentive Program	93.053		48,077
Centers for Medicare and Medicaid Services Research, Demonstrations and Evaluations	93.779		22,940
State Department of Social Services:			
Promoting Safe and Stable Families	93.556		36,056
Temporary Assistance to Needy Families	93.558		562,105
Refugee and Entrant Assistance State Administered Program	93.566		11,297
Low-Income Home Energy Assistance	93.568		15,684
Community Services Block Grant	93.569		11,589
Child Care and Development Block Grant	93.575		872,137
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596		1,279,774
Adoption Incentive Payments	93.603		1,078
Foster Care – Title IV-E	93.658		1,821,858
Adoption Assistance	93.659		96,098
Social Services Block Grant	93.667		462,255
Chafee Foster Care Independence Program	93.674		4,468
State Children's Insurance Program	93.767		406
Medicaid Assistance Program	93.778		555,833
State Department of Housing and Community Development:			
Temporary Assistance for Needy Families	93.558		24,572
Total United States Department of Health and Human Services			<u>7,410,187</u>
Corporation for National and Community Service			
Direct Payments:			
Retired Seniors' Volunteer Program	94.002		<u>29,405</u>
Total United States – Corporation for National and Community Service			<u>29,405</u>
United States Department of Homeland Security			
Direct Payments:			
Assistance to Firefighter Grant	97.044	2003	35,648
Assistance to Firefighter Grant	97.044	2004	29,837
Pass-through Payments:			
United States Department of Housing and Urban Development:			
Katrina Disaster Housing Assistance Program	97.000	2006	11,402

COUNTY OF LOUDOUN, VIRGINIA
Schedule of Expenditures of Federal Awards
Year ended June 30, 2006

<u>Federal granting agency/pass-through agency/program</u>	<u>Federal catalog number</u>	<u>Grant year</u>	<u>Total 2006 federal expenditures</u>
State Department of Criminal Justice Services:			
State Domestic Preparedness Equipment Support Program	97.004	2003	\$ 105,630
State Department of Emergency Services:			
State Domestic Preparedness Equipment Support Program	97.004	2003	159,749
State Domestic Preparedness Equipment Support Program	97.004	2004	401,944
Emergency Management Performance Grants	97.042	2003	18,208
Buffer Zone Protection Plan	97.078	2004/2005	95,526
Government of the District of Columbia:			
Homeland Security Grant Program	97.067	2005	38,220
Urban Areas Security Initiative	97.008	2003/2004	3,108,790
Total United States – Department of Homeland Security			<u>4,004,954</u>
			<u>\$ 36,664,541</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards.

COUNTY OF LOUDOUN, VIRGINIA
Notes to Schedule of Expenditures of Federal Awards
Year ended June 30, 2006

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

The accompanying schedule of expenditures of federal awards (the Schedule) includes the activity of all federal award programs administered by the County of Loudoun, Virginia (the County), and its component unit, the Loudoun County Public Schools. The County's reporting entity is defined in note 1(a) of the County's basic financial statements.

Federal award programs include direct expenditures, monies passed through to other governmental entities (i.e., payments to subrecipients), and nonmonetary assistance.

(b) Basis of Presentation

The information in the Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. Federal award program titles are reported as presented in the Catalog of Federal Domestic Assistance (CFDA) in effect for the year in which the award was granted.

(c) Basis of Accounting

The Schedule has been prepared on the modified accrual basis of accounting as defined in note 1(c) of the County's basic financial statements.

(d) Matching Costs

Matching costs, the nonfederal share of certain program costs, are not included in the Schedule.

(2) Relationship to Federal Financial Reports

The regulation and guidelines governing the preparation of federal financial reports vary by federal agency and among programs administered by the same agency. Accordingly, the amounts reported in the federal financial reports do not necessarily agree with the amounts reported in the accompanying Schedule.

(3) Noncash and Other Programs

The County received \$2,680,247 in noncapitalizable pass-through property sub-awards and \$428,543 in capitalizable equipment under the Urban Area Security Initiative grant (CFDA 97.008) for the year ended June 30, 2006. Such amounts are reflected in the accompanying Schedule and in the basic financial statements.

Also, due to a change in policy at the U. S. Department of Agriculture (USDA) and the Commonwealth of Virginia Department of Agriculture and Consumer Services, the value of USDA commodities remaining on hand at June 30, 2006 for CFDA number 10.555 is no longer required to be reported separately. Therefore, the amounts received are reported as federal expenditures in the accompanying Schedule.

COUNTY OF LOUDOUN, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2006

(4) Amounts Passed-Through to Subrecipients

Grant proceeds in the amount of \$1,608,583 and \$33,117 were passed through to subrecipients for the Gang-Free Schools and Communities Community-Based Gang Intervention program (CFDA 16.544) and State Domestic Preparedness Equipment Support Program (CFDA 97.004), respectively, for the year ended June 30, 2006. It was not practicable to determine amounts passed through to subrecipients for nonmajor programs.

COUNTY OF LOUDOUN, VIRGINIA
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued on the financial statements: Unqualified

Internal control over financial reporting:

Material weaknesses identified? No

Reportable conditions identified that are not considered to be material weaknesses? None Reported

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

Material weaknesses identified? No

Reportable conditions identified that are not considered to be material weaknesses? Yes

Major Programs with Reportable Conditions

Type of report issued on compliance for major programs: Unqualified

Any findings which are required to be reported under Section 0.510(a) of OMB Circular A-133? Yes

Identification of major programs:

<u>Grant program</u>	<u>Federal CFDA numbers</u>
Urban Area Security Initiative	97.008
Special Education Cluster	84.027, 84.173, 84.330, 84.369
Child Nutrition Cluster	10.553, 10.555, 10.556
Gang-Free Schools and Communities Community-Based Gang Intervention	16.544
State Domestic Preparedness Equipment Support Program	97.004
Special Education – Grants for Infants and Families with Disabilities	84.181
Head Start	93.600

Dollar threshold used to distinguish between Type A and Type B programs: \$1,081,976

Auditee qualified as a low-risk auditee? Yes

COUNTY OF LOUDOUN, VIRGINIA

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

II. Findings Related to Financial Statements

None noted.

III. Findings Related to Federal Awards

<u>No.</u>	<u>Program</u>	<u>Compliance requirement</u>	<u>Questioned costs</u>
2006-01	Urban Area Security Initiative (No. 97.008)	SEFA completeness	None

Condition

During our testwork over the Urban Area Security Initiative (CFDA 97.008) pass-through property sub-awards received by Loudoun County from Fairfax County and Arlington County, we noted that the controls in place were not adequate to ensure complete and accurate recording of federal awards in the general ledger. Items were not recorded as received on the date of the title transfer, and transactions with a value of \$684,574 were recorded in the general ledger as late as October 2006, when the issue was brought to management's attention in conjunction with our audit of the grant. Each item was less than \$5,000 in value and therefore was below the capitalization threshold.

Criteria

According to Subpart C, *Auditees*, Paragraph .300, *Auditee Responsibilities*, of OMB Circular A-133, the auditee shall:

- (a) Identify, in its accounts, all federal awards received and expended and the federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the federal agency, and name of the pass-through entity.
- (b) Maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs.
- (c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its federal programs.

Cause

Fairfax and Arlington did not provide the County with information regarding the unit values upon delivery of the items. Further, management was not proactive in following up to obtain the information necessary to record these transactions timely.

Effect

Not recording federal awards timely might cause the County's Schedule of Expenditures of Federal Awards to be misstated.

COUNTY OF LOUDOUN, VIRGINIA

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Recommendation

We recommend that management establish policies and procedures to obtain the value of fixed assets received under this grant in order to completely and accurately record amounts in the financial statements and the Schedule of Expenditures of Federal Awards.

Management Response

Management concurs with this finding and will implement the recommendation above.

Finding

No.	Program	Compliance requirement	Questioned costs
2006-02	Special Education – Grants for Infants and Families with Disabilities (No. 84.181)	Allowable costs/ cost principles	None

Condition

The Loudoun County Mental Health Department did not maintain appropriate effort reporting documentation in compliance with OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, to support payroll costs charged to the Special Education – Grants for Infants and Families with Disabilities program for all three employees selected for testing out of a total of four employees charged to the grant. We reviewed the personnel file for these three employees and noted that their job description indicated that they perform services that appear compatible with the grant purpose. Of the total payroll costs of approximately \$104,000 charged to the program during fiscal year 2006, payroll costs for the three employees tested amounted to approximately \$84,000. During our audit, we noted that there are no documented controls to ensure that applicable employees submit the semi-annual Time and Effort Certifications required by OMB Circular A-87.

Criteria

OMB Circular A-87 states that compensation of employees for the time devoted and identified specifically to the performance of a federal program's objectives represents a direct cost chargeable to the federal award. Under OMB Circular A-87, compensation costs must be supported by employee time sheets, employee semi-annual certifications of time worked solely on the applicable grant, or "moment in time" time studies approved by the federal government, estimating the amount of time to be allocated to applicable grants. Effective internal controls over compliance with federal laws and regulations should be an integral part of operations.

Cause

The County payroll for full-time employees is under an "exception reporting" system, where only exceptions (e.g. holiday, sick-time, leave, over-time) are reported. There is no after-the-fact reporting of personnel time charged to the Special Education – Grants for Infants and Families with Disabilities program. The Mental Health Department has not instituted a process requiring that the individuals who

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work solely on this grant complete semi-annual payroll certifications in accordance with the requirements of OMB Circular A-87.

Effect

Personnel salaries comprise a significant part of the total costs charged to the Special Education – Grants for Infants and Families with Disabilities program. Failure to have an adequate process in place to ensure compliance with the employee time and effort reporting requirements could lead to the administration of the federal program contrary to laws, regulations, and the terms of the grant agreement. Further, it results in noncompliance with the requirements of OMB Circular A-87.

Recommendation

We recommend that the Mental Health Department implement a process that requires all applicable employees to submit semi-annual time and effort certifications. A monitoring control should also be implemented to ensure that the certifications are submitted timely. For example, all employees who are required to submit the semi-annual certifications should be reminded to do so two weeks before the due date.

Management Response

Management concurs with this finding and has instituted controls to obtain the semi-annual payroll certifications.

Finding

<u>No.</u>	<u>Program</u>	<u>Compliance requirement</u>	<u>Questioned costs</u>
2006-03	Urban Area Security Initiative (No. 97.008)	Equipment management	None
	State Domestic Preparedness Equipment Support Program (No. 97.004)		

Condition

During our control testwork over equipment, we noted that the Loudoun County Department of Fire, Rescue, and Emergency Management is in the process of developing policies and procedures that (i) require the performance of a physical count for the equipment purchased with federal funds and reconciliation of the inventory on hand with equipment records and (ii) govern the disposition of federally funded equipment. However, these policies and procedures are only in draft form and are not documented at a sufficient level of detail to provide for their practical implementation. During our audit, we noted that all equipment acquired under the grants was received in either fiscal year 2005 or 2006 and was counted at the time of receipt.

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Criteria

The Control Guidance of OMB Circular A-133 requires that the non-federal entity maintain proper records for equipment purchased with federal funds. In order to achieve this objective, a physical inventory of equipment must be periodically taken (at a minimum every two years) and compared to property records. Further, management should review the results of the periodic inventory and follow up on all noted discrepancies. The non-federal entity should also have adequate procedures in place that provide for the timely reflection of dispositions of federally funded property in property records and for the reimbursement of the federal agency with the appropriate federal share of the disposition value.

Cause

The Loudoun County Department of Fire, Rescue, and Emergency Management does not have established policies and procedures that require the physical count of equipment inventory, including equipment purchased with federal funds. Similarly, there are no policies in place to govern the disposition of federally funded equipment.

Effect

Lack of comprehensive policies and procedures regarding equipment management that require the periodic counting of equipment and that also govern equipment dispositions might cause the County's federally funded equipment records to not be accurate and pose doubt on management's ability to provide proper stewardship.

Recommendation

We recommend that the Loudoun County Department of Fire, Rescue, and Emergency Management develop and implement detailed policies and procedures that require the periodic counting of equipment purchased with federal funds and that set forth the steps to be followed for this purpose, as well as at the point of disposition of such equipment. The physical inventory of equipment must be periodically taken at a minimum of every two years and compared to property records. Further, management should review the results of the periodic inventory and follow up on all noted discrepancies. When federally funded equipment is disposed, the policies should provide for the federal awarding agency receiving their share of the equipment disposition value.

Management Response

Management concurs with this finding and will institute controls that address the recommendations above.

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Finding

No.	Program	Compliance requirement	Questioned costs
2006-04	State Domestic Preparedness Equipment Support Program (No. 97.004)	Procurement, suspension, and debarment	None

Condition

During our control testwork over the procurement, suspension, and debarment compliance requirements for the State Domestic Preparedness Equipment Support Program, we noted that personnel were not aware that the revised federal requirements related to this area have lowered the covered transactions threshold to \$25,000. As a result, personnel did not perform the required verification checks for covered transactions between \$25,000 and \$100,000 in contract/purchase order value by checking the Excluded Parties List System (EPLS), collecting a certification form from the third party vendors, or adding a clause or condition to the contract with the third party vendor.

Criteria

The Code of Federal Regulations (2CFR180) contains the latest OMB procurement, suspension, and debarment guidance, which lowered the covered transactions threshold from \$100,000 to \$25,000, effective November 26, 2003. According to the revised guidance, "covered transactions" include those procurement contracts for goods and services awarded under a nonprocurement transactions (i.e., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other specified criteria. All nonprocurement transactions (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions. When a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by following one of the following methods:

- a) Checking the EPLS maintained by the General Services Administration; or
- b) Collecting a certification from the contracting party; or
- c) Adding a clause or condition to the covered transactions with that contracting party.

Cause

County personnel were not aware of the change in the federal requirement.

Effect

Failure to perform the applicable verification check or to receive the required vendor certifications regarding suspension and debarment could potentially lead to the administration of the federal programs contrary to laws, regulations and the grant agreement, and result in noncompliance.

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Recommendation

We recommend that management enhance its existing procurement, suspension, and debarment policies and procedures to ensure compliance with the lower federal threshold for covered transactions.

Management Response

Management concurs with this finding and has instituted controls that will address the recommendation above.

Finding

<u>No.</u>	<u>Program</u>	<u>Compliance requirement</u>	<u>Questioned costs</u>
2006-05	State Domestic Preparedness Equipment Support Program (No. 97.004)	Reporting	None

Condition

During our control and compliance testwork over the reporting requirement for the State Domestic Preparedness Equipment Support Program, we noted that the Loudoun County Department of Fire, Rescue, and Emergency Management failed to ensure submission of the required quarterly progress reports by the due date requested from the Virginia Department of Emergency Management (VDEM). Specifically, the progress report for the period ended June 30, 2006 was required to be submitted by July 15, 2006. However, the progress report was not submitted until July 21, 2006 for the program year 2003 Part I and Part II grants and until July 27, 2006 for the program year 2004 grant. Likewise, the progress report for the period ended March 31, 2006 was required to be submitted by April 15, but was not submitted until May 10, 2006 for all three grants.

Criteria

The State Domestic Preparedness Equipment Support Program grant agreement with the VDEM required quarterly progress reports to be submitted within 15 days of the quarter end.

Cause

The program managers were aware of the reporting time frame requirements, however were unable to comply with them.

Effect

Failure to submit required reports within the required time frame could result in delays in the draw down of funds.

Recommendation

We recommend that management implement policies and procedures to ensure submission of the required progress reports within the required reporting time frame.

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Management Response

Management concurs with this finding and is modifying procedures to ensure that the reports submissions will occur on time going forward.

Finding

No.	Program	Compliance requirement	Questioned costs
2006-06	State Domestic Preparedness Equipment Support Program (No. 97.004) Gang-Free Schools and Communities Community-Based Gang Intervention (No. 16.544)	Subrecipient monitoring	None

Condition

During our testwork we noted that the Loudoun County Sheriff's Office and the Department of Fire, Rescue, and Emergency Management do not have procedures in place to monitor the single audit and related single audit findings of the subrecipient jurisdictions for the Gang-Free Schools and Communities Community-Based Gang Intervention and State Domestic Preparedness Equipment Support Program, respectively. We also noted that the Memorandum of Understanding with subrecipients for the State Domestic Preparedness Equipment Support Program fails to identify the grant CFDA number and does not include any suspension and debarment certification language.

Criteria

The OMB Circular A-133 Compliance Supplement requires pass-through entities to perform procedures to obtain reasonable assurance that subrecipients have required audits performed and take appropriate corrective action on audit findings. Additionally, the pass-through entity must determine whether subrecipient audit findings are resolved and evaluate the impact of any subrecipient compliance on the pass-through entity.

The OMB Circular A-133 Compliance Supplement further sets forth specific requirements about the information that the awarding entity should communicate to the subrecipients through the subrecipient agreement/Memorandum of Understanding.

Cause

Management reviews all reimbursement requests and related supporting documentation submitted by subrecipients for allowability and therefore believes that, by doing so, it is adequately discharging subrecipient monitoring requirements.

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Effect

By not reviewing subrecipient single audit reports, County management runs the risk of being unaware of potential audit findings related to subrecipients and might therefore fail to evaluate and report the impact of subrecipient noncompliance, if any, on the County's financial reports. Failure to properly monitor subrecipients could lead to the administration of Federal programs contrary to laws, regulations, and terms of the grant agreement. Further, it could result in noncompliance with the requirements of OMB Circular A-133.

Recommendation

We recommend that management implement procedures to ensure that subrecipients have required single audits performed and take appropriate corrective action on audit findings, if any, related to the awards made by the County. Further, County management should implement procedures to evaluate the impact that subrecipient audit findings have on the County's compliance with federal requirements.

Management Response

Management concurs with this finding and will institute controls that address the recommendations above.